

ORIGINAL EXCEPTION

OPEN MEETING AGENDA ITEM



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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF
UTILITY SOURCE, LLC, AN ARIZONA
CORPORATION, FOR A DETERMINATION
OF THE FAIR VALUE OF ITS UTILITY
PLANTS AND PROPERTY AND FOR
INCREASES IN ITS WATER AND
WASTEWATER RATES AND CHARGES
FOR UTILITY SERVICE BASED THEREON.

Docket No. WS-04235A-13-0331

Arizona Corporation Commission

DOCKETED

SEP 02 2015

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RUCO'S EXCEPTIONS

The Residential Utility Consumer Office ("RUCO") hereby files its Exceptions to the Recommended Opinion and Order ("ROO") in the matter of Utility Source, L.L.C. ("Utility Source," or "Company") application for a revenue increase.

COST OF EQUITY

The ROO recommends a Cost of Equity ("COE") of 9.80 percent. While the ROO states that its recommended COE does not adopt the 70 basis point "Small Firm Risk Adjustment" as proposed by the Company, the 70 basis points "Comparable Earnings Adjustment" as recommended by RUCO or the 60 basis point "Economic Assessment Adjustment" as proposed by Staff," it seems more than coincidence that the ROO's recommended ROE is Staff's number. Staff's recommendation of 9.80 COE included a 60 basis point "Economic

1 Assessment Adjustment" that Staff apparently "slaps" on every COE recommendation these
2 days. An Administrative Law Judge in the recent EPCOR Mohave et al water case (WS-
3 01303A-14-0010) recently found that the 60 basis point adder was "arbitrary." See EPCOR
4 ROO at 42. At the Open Meeting of the same case, Staff's new Director, Tom Broderick when
5 asked indicated that he had not seen anything to show that it was not arbitrary.

6 RUCO is recommending a 9.25 percent COE that includes the adjustment for
7 Comparable Earnings which is comparable to Staff's COE less the adder. RUCO recommends
8 the Commission reject the "arbitrary" adder amount and approve a 9.20 or 9.25 COE.
9

10 **CONTRIBUTIONS IN AID OF CONSTRUCTION ("CIAC")**

11 RUCO believes it is appropriate to reclassify certain plant as CIAC which RUCO
12 believes was never included by the Company in prior cases. RUCO has imputed \$109,206
13 related to mains that should have been classified as distribution pipe for the wastewater
14 division. RUCO has imputed \$34,500 related to fire hydrants which should have been
15 classified as CIAC, and \$73,252 related to mains that should have been classified as
16 distribution pipe for the water division. RUCO agreed with Intervenor Nielsen on this – the plant
17 is known to exist, was never accounted for and should not be ignored.
18

19 **INCOME TAX EXPENSE**

20 The Commission should remove all Federal and State income taxes because the
21 Company is classified as a limited liability company and, therefore, does not report income
22 taxes at the corporate level, but passes this income through to its shareholders. Why should
23 the Company recover income taxes it does not pay – this is not sound ratemaking.
24

1 **COMINGLING OF FUNDS**

2 In order to eliminate comingling issues going forward, at a minimum RUCO believes that
3 the Company should:

- 4 1) Have a separate dedicated phone line for utility source business.
- 5 2) Maintain a vehicle mileage log for vehicles used to travel from Queen Creek to Utility
6 Source.
- 7 3) Have a separate supply account for office items bought and used by Utility Source.
- 8 4) For any shared equipment, such as copiers, provide usage sheets for each of the
9 multiple companies.
- 10 5) Have contracts and maintain weekly timesheets for all Utility Source employees.
- 11 6) List the business hours and have a sign on the guard house that the guard house is
12 used only to conduct Utility Source business.

13

14 Further, RUCO recommends that the Company file as a compliance item to this docket
15 within 30 days of a Decision confirmation of compliance with the above requirements.

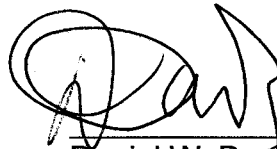
16

17 **COMPLIANCE ISSUES**

18 RUCO recommends that the Company be ordered to come into compliance with the
19 following two issues raised at the hearing within 90 days of a decision in this matter:

- 20 a. Transfer of all Utility Plant into Utility Source, LLC's name.
- 21 b. File an application for an extension of its Certificate of Convenience and
22 Necessity ("CC&N") territory to cover customers that the Company is currently
23 serving outside of its CC&N area.

1 RESPECTFULLY SUBMITTED this 2nd day of September, 2015.

2
3 

4 Daniel W. Pozefsky
5 Chief Counsel

6 AN ORIGINAL AND THIRTEEN COPIES
7 of the foregoing filed this 2nd day
8 of September, 2015 with:

9 Docket Control
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13 COPIES of the foregoing hand delivered/
14 mailed this 2nd day of September, 2015 to:

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